

DEBT MARKETS

Global Update

US Treasury markets continued the bullish pattern for the fifth week in a row, on concerns of Europe fiscal deficit and slow US recovery. The East European economies like Greece, Portugal and Spain face severe problems to budget the fiscal deficit, thus pushing the worried traders into the safe havens of US treasuries. The yield of 2 yrs and 10 yrs note fell by 4 basis points to 0.77% and 2 basis point to 3.57% respectively.

Domestic

In the first trading week post monetary policy the sentiment was bearish in the bond markets. Yields of 6.35% 2020 paper rose by 10 basis points to close at 7.68%. RBI emphasized the importance of co-ordination of monetary measures with the fiscal prudence by Indian government in an unprecedented concall with the investors, discussing the nuances of the policy. The yield rose both on the long end as well as short end of the yield curve. Yields rose by 20-25 basis points for the 6-12 months segment after SEBI circular changing the valuation norms for CPs and CDs and NCDs from Amortisation model to Mark to Market model.

CALL & CBLO

The money market rates did come down during the first half, only to go up after the policy announcement. The range for MIBOR was 3.29%-3.30 % during the week. The Inter-bank Call and CBLO range were 2.00%- 3.35% and 1.00%-3.50% respectively.

Government Securities and Treasury Bills

The Indian markets saw flattening of G-Sec yield curve, with one year rates moving up more than the 10 yrs rates. The last G-Sec auction of the FY '09-10 of INR 80 bn saw

higher than expected cutoff. While the benchmark 6.35% 2020 bond was re-issued at 7.68%, the 2016 bond costed the government 7.51%. The longest maturing bond (8.24% Gol 2027) was re-issued at 8.32%. On Wednesday the INR 85 bn T-bills auction had a low bid-to-cover ratio of 1.89. Both the tenders witnessed a cut-off higher than its previous level; the 3-months bill was sold 8 bps higher at 4.09% while its 6-months counterpart was issued at 4.49% (30 bps higher).

Corporate Bonds

The corporate bond yields too moved up, following the G-Sec markets. The 5 yrs benchmark bond traded around 8.42% while 10 yrs benchmark bond traded around 8.75%, the yields moving up by 5-7 basis points.

Rupee

Indian Rupee fell for the fourth week, as worsening public finance in the East European Economies prompted the investors to buy Dollar as safe haven currency. The Rupee closed the week at 46.74, the lowest level for this calendar year.

Fund Manager's Comment

The yields have hardened over last fortnight across the curve with expected hike in government borrowing working against the long tenor papers and liquidity concerns against the shorter tenor. But there are certain factors that can lead to softening in the coming days. The increasing concern of Eastern European economies may refrain RBI from increasing the benchmark rates in the near future, and the government may take a cue to keep fiscal deficit at lower levels. The yield for 10 yrs G-Sec is likely to trade in a range of 7.60%-7.75% with downward bias.

Market Indicators as on 5th February, 2010

	5/02/2010	29/01/2010	% change
INR/USD	46.7425	46.1782	1.22
Inflation	NA	NA	NA
Oil (\$/bbl)	71.19	74.19	-4.04
Gold (\$/oz)	1066.30	1081.80	-1.43
10 years G-Sec	7.575	7.575	0.00
10 years AAA	8.7525	8.6850	0.78
Call Money	3.28	3.30	-0.61

Source: Bloomberg

EQUITY MARKETS

The Indian market continued their downward journey during the week on the back of negative cues from the international market particularly Europe. The BSE Sensex lost 2.7% during the week and ended the shop at 15916 while nifty lost 2.6% and ended at 4757. BSE Mid and Small-Cap indices were also ended in negative zone but outperformed the broader markets as they lost 1.1% and 0.4%, respectively. On the sectoral front, the BSE Realty index losing the maximum of 5.1%, followed by the BSE Bankex and BSE PSU indices. The BSE Bankex lost 3.9% during the week. The top losers in the sector were Karnataka Bank (-10.3%), SBI (-7.0%), Bank of India (-6.5%), Allahabad Bank (-6.2%) and Kotak Mahindra Bank (-6.0%).

The global meltdown, triggered by mounting concerns over Debt strains in Greece, Portugal and Spain as well as indication of week US jobless data and crash in commodity and energy prices.

During Q3FY10, profit growth for the Sensex companies came at 14.6%. EBITDA growth was robust at 31.6%. The margins of Sensex companies expanding by close to 180bps on a YoY basis. This is primarily led by Autos (740 bps), Cement (790 bps) and Metals (380 bps).

The price index of Primary Articles declined to 14.56% on a yearly basis and 21 bps on a weekly basis. the price index of Food Articles has went up to 17.56% on YoY. The price index of Non-food Articles went down by 10.93% on a yearly basis. It also went down by 54 bps on a weekly basis owing to decrease in prices of oil seeds.

Auto sales continues to remain robust during the January month. Hero Honda has reported its best ever January

sales at 3.89 lakh units, a jump of 24% year-on-year. TVS Motor posted a 37% increase in sales to 1.09 lakh units against 79,729 units sold in the same month last year. Suzuki Motorcycle India reported a 93% jump in sales to 20,441 units in January.

The Government's big bang disinvestment plans to curb spiraling fiscal deficit kicked off on a sour note with the NTPC follow-on-offering (FPO). The Rs83bn NTPC FPO managed to scrape through and was fully subscribed primarily due to the support from public sector banks and insurance monolith LIC. The issue was subscribed only 1.2 times. It received a little over 100,000 applications from the retail investors. It received bids for 49.36 crore shares against the 41.2 crore shares on offer.

On the major Global news, Obama proposed \$3.8 trillion fiscal 2011 budget which puts an emphasis on job creation with \$100 billion in additional stimulus spending, along with higher taxes for the wealthy in an attempt to narrow the deficit. The spending blueprint forecasts this year's budget shortfall will hit a record \$1.6 trillion, following a \$1.4 trillion deficit in 2009. The 2011 deficit is predicted to be \$1.3 trillion.

As the global woes continue to hunt the emerging market particularly India, we feel Indian market may continue to reacts in line with its global counterparts. Budget would be the major event during the month which will be eagerly watch out by the global investors. This will derive the sentiment in the market.

Taurus Benchmark Indices Movement

Indices	06/02/10	29/01/10	Points change	% change
BSE Sensex	15915.65	16357.96	-442.31	-2.70
S&P CNX Nifty	4757.25	4882.05	-124.80	-2.56
BSE 100	8504.42	8707.82	-203.40	-2.34
BSE 200	2020.21	2065.21	-45.00	-2.18
CNX Midcap	7152.75	7201.85	-49.10	-0.68
S&P CNX 500 Shariah	1177.23	1198.63	-21.40	-1.79

Weekly FII & MF net flows (Rs. in crs.)

29/01/10 to 04/02/10	Equity	Debt
FII	-1518.50	-183.60
MFs	131.70	487.30

Source : SEBI site

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